

INTERURBAN TRANSIT AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>INTERURBAN TRANSIT AUTHORITY</b>	County <b>ALLEGAN</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>11/16/04</b>	Date Accountant Report Submitted to State: <b>1/18/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes to the report of comments and recommendations

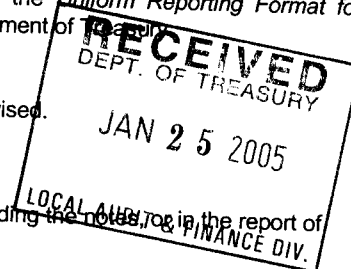
You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>FERRIS, BUSSCHER &amp; ZWIERS, P.C.</b>			
Street Address <b>675 E. 16TH STREET, SUITE 100</b>		City <b>HOLLAND</b>	State <b>MI</b>
Accountant Signature <i>Douglas W. Ferris C.P.A.</i>		ZIP <b>49423</b>	Date <b>1/13/05</b>



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November 19, 2004

Board of Directors  
Interurban Transit Authority  
Douglas, Michigan

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Interurban Transit Authority, County of Allegan, Michigan as of and for the year ended September 30, 2004, as listed in the index. These financial statements are the responsibility of Interurban Transit Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interurban Transit Authority, County of Allegan, Michigan as of September 30, 2004 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8, Interurban Transit Authority adopted the provisions of Governmental Accounting Standards Nos. 33, 34, 36, 37, 38, and 40 as of and for the year ended September 30, 2004.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004 on our consideration of Interurban Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

*Ferris, Busscher & Zwiens, P.C.*

FERRIS, BUSSCHER & ZWIERS, P.C.  
Certified Public Accountants  
Holland, Michigan

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

ASSETS

CURRENT ASSETS

Cash and equivalents	
Investments	\$ 152,280
Section 5311 Federal grant receivable	170,000
Other receivables	25,967
Interest receivable	8,300
Prepaid insurance	760
	<u>2,608</u>

TOTAL CURRENT ASSETS

\$ 359,915

NONCURRENT ASSETS

Capital assets	
Land	\$ 27,531
Other capital assets, net of depreciation	278,072
Prepaid retirement contribution	<u>56,255</u>

TOTAL NONCURRENT ASSETS

\$ 361,858

TOTAL ASSETS

\$ 721,773

LIABILITIES

CURRENT LIABILITIES

Accounts payable	
Employees' funds withheld	\$ 3,997
Accrued liabilities	1,125
Wages	4,040
Payroll taxes and benefits	2,054
Compensated absences	<u>4,277</u>

TOTAL CURRENT LIABILITIES

\$ 15,493

NET ASSETS

Invested in capital assets	\$ 305,603
Unrestricted	<u>400,677</u>

TOTAL NET ASSETS

\$ 706,280

See notes to financial statements

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
SEPTEMBER 30, 2004

OPERATING REVENUES	
Demand response (farebox)	\$ 46,096
TOTAL OPERATING REVENUES	\$ 46,096
OPERATING EXPENSES	
Operations	\$ 368,472
Maintenance	68,434
General administration	140,687
TOTAL OPERATING EXPENSES	\$ 577,593
OPERATING LOSS	\$ (531,497)
NONOPERATING REVENUES	
Tax levy	\$ 149,259
State operating grants	219,734
Federal operating grants	56,112
Interest income	4,077
Gain on sale of assets	5,950
TOTAL NONOPERATING REVENUES	\$ 435,132
LOSS BEFORE CONTRIBUTIONS	\$ (96,365)
CAPITAL CONTRIBUTIONS	
State and federal grants	\$ 59,090
CHANGE IN NET ASSETS	\$ (37,275)
NET ASSETS - OCTOBER 1, 2003	743,555
NET ASSETS - SEPTEMBER 30, 2004	\$ 706,280

See notes to financial statements

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 39,276
Payments to employees for services	(277,094)
Payments to suppliers for goods and services	(117,351)
Other payments	<u>(122,097)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (477,266)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	<u>\$ 422,812</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ (58,597)
Proceeds from sale of capital assets	5,950
Capital grants received	<u>59,090</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 6,443</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	\$ 3,687
Purchase of investments	<u>(70,000)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>\$ (66,313)</u>
NET DECREASE IN CASH	\$ (114,324)
CASH AND EQUIVALENTS - OCTOBER 1, 2003	<u>266,604</u>
CASH AND EQUIVALENTS - SEPTEMBER 30, 2004	<u>\$ 152,280</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (531,497)
Adjustments to reconcile net operating loss to net cash used by operating activities	
Depreciation expense	67,145
Change in assets and liabilities	
Receivables	(8,300)
Prepaid expenses	(961)
Accounts payable and accrued liabilities	<u>(3,653)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (477,266)</u>

See notes to financial statements



INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interurban Transit Authority is organized as a non-profit corporation. The incorporating municipalities include the City of Saugatuck, Village of Douglas and Saugatuck Township. The Authority has the capability and the authority to provide public transportation to the general public.

**BASIS OF ACCOUNTING**

The Authority is accounted for in a proprietary fund which accounts for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, and, accordingly, the accrual basis of accounting and economic resource measurement focus are followed. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperation items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance. The government has elected not to follow subsequent private-sector guidance.

The following is a summary of the more significant accounting policies:

**BANK DEPOSITS AND INVESTMENTS**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**PREPAID ITEMS**

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items.

**CAPITAL ASSETS**

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Land improvements	10
Operating facility	20
Revenue vehicles	5-7
Office equipment	5-10
Yard equipment	5

COMPENSATED ABSENCES (VACATION AND SICK LEAVE)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation leave must be used within 18 months after it has been earned. Any unused vacation time at the time of termination will be paid to the employee.

Sick leave is earned at a rate of five days per year. It cannot be accumulated from year to year.

Vacation or sick leave utilized during the year is recorded as a current expense. At year end, each employee's accumulated vacation leave is computed by applying their current rate of pay times total accumulated hours. The composite dollar total for all employees is entered as an accrued liability by an applicable adjusting entry posted to the liability and expense account.

RESTRICTED NET ASSETS

The Authority's policy is to first apply restricted resources when an expense is incurred for which restricted and unrestricted net assets are available.

ADVERTISING COSTS

The Authority expenses all advertising costs as incurred. Advertising expense was \$8,686 for the year ended September 30, 2004.

NOTE 2 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Sections 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority Board has designated four banks for the deposit of Authority funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

At year-end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	\$ 152,280
Investments	<u>170,000</u>
Total	<u>\$ 322,280</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 322,168
Petty cash and cash on hand	<u>112</u>
Total	<u>\$ 322,280</u>

The bank balance of the Authority's deposits is \$324,396 of which \$324,396 is covered by federal depository insurance and \$0 uninsured and uncollateralized.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of the following as of September 30, 2004:

	Purchased With Interurban Funds	Purchased With Capital Grants	Total
Land	\$ 31	\$ 27,500	\$ 27,531
Land improvements	17,732	-	17,732
Operating facility	81,686	330,571	412,257
Revenue vehicles	970	425,140	426,110
Office equipment	22,415	19,276	41,691
Yard equipment	<u>8,803</u>	<u>31,699</u>	<u>40,502</u>
Totals	\$ 131,637	\$ 834,186	\$ 965,823
Less accumulated depreciation	<u>(83,870)</u>	<u>(576,350)</u>	<u>(660,220)</u>
Totals	<u>\$ 47,767</u>	<u>\$ 257,836</u>	<u>\$ 305,603</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 27,531	\$ -	\$ -	\$ 27,531
Subtotal	\$ 27,531	\$ -	\$ -	\$ 27,531
Capital assets being depreciated				
Land improvements	\$ 17,732	\$ -	\$ -	\$ 17,732
Operating facility	412,257	-	-	412,257
Revenue vehicles	412,138	58,597	(44,625)	426,110
Office equipment	70,648	-	(28,957)	41,691
Yard equipment	40,502	-	-	40,502
Subtotal	\$ 953,277	\$ 58,597	\$ (73,582)	\$ 938,292
Less accumulated depreciation for				
Land improvements	\$ 7,434	\$ 1,045	\$ -	\$ 8,479
Operating facility	242,935	21,668	-	264,603
Revenue vehicles	312,670	41,523	(44,625)	309,568
Office equipment	63,819	2,371	(28,957)	37,233
Yard equipment	39,799	538	-	40,337
Subtotal	\$ 666,657	\$ 67,145	\$ (73,582)	\$ 660,220
Net capital assets being depreciated	\$ 286,620	\$ (8,548)	\$ -	\$ 278,072
Total capital assets – net of depreciation	\$ 314,151	\$ (8,548)	\$ -	\$ 305,603

Depreciation expense was \$67,145 for the year ended September 30, 2004.

When federal or state funded assets are withdrawn from a public transportation service, the disposition of the assets are to be determined by the Michigan Department of Transportation.

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 4 – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The Authority's defined benefit pension plan, which consists of participation in the Municipal Employees' Retirement System of Michigan, provides retirement, disability and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan ("System") is an agent multiple-employer pension plan administered by the Retirement Board of the Municipal Employees' Retirement System of Michigan. The authority to establish and amend the benefit provisions of the plan rests with the System's Retirement Board; the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220; and the System's plan document. The Authority adopts its specific benefit provision. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Municipal Employees' Retirement System of Michigan. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

FUNDING POLICY

The Authority's plan members do not contribute to the System. The Authority is required to contribute at an actuarially determined rate. The required contribution for the period October 1, 2003 through September 30, 2004 was based on the annual actuarial valuation as of December 31, 2003. The net rate used was 6.98% of a projected annual covered payroll. The contribution requirements of plan members are selected by the Authority. The contribution requirements of the Authority are established and may be amended by the System's Retirement Board, yet the Authority selects its specific benefit provision.

ANNUAL PENSION COST

For the year ended September 30, 2004, the Authority's annual pension cost of \$19,492 for participation in the System was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 1996 actuarial valuation using the entry age normal cost method. This funding method has been used since the December 31, 1993 valuation. The assumptions and methods used in the December 31, 2003 actuarial valuation are those adopted by the Retirement Board. The actuarial assumptions were last revised as of December 31, 2000 to reflect the results of the study of plan experience covering the period from December 31, 1993 through December 31, 1998. Prior to then, the attained age normal cost method had been in effect. The actuarial assumptions used in the December 31, 1996 valuation included a long-term net investment yield rate of 8% and projected annual salary increases of 4.5%, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases ranging from 0% to 4.16%. The actuarial value of the Authority's plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis which remains stable at 30 years.

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 4 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The following is a schedule of funding progress relating to the Authority's participation in the System:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability-Entry Age Normal Cost Method	(Overfunded) Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/01	\$372,748	\$429,003	\$56,255	87%	\$201,401	28%
12/31/02	479,687	488,972	9,285	98	204,610	5
12/31/03	540,097	539,528	(569)	100	209,035	0

The following is a schedule of annual pension cost and net pension obligation relating to the Authority's participation in the System:

Fiscal Year Ending	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
09/30/02	\$18,212	100%	0
09/30/03	16,923	100	0
09/30/04	19,492	100	0

NOTE 5 – COST ALLOCATION PLANS

The Authority has cost allocation plans approved by the Bus Transit Division of the Michigan Department of Transportation for all allocated expenses. These plans have been adhered to in the preparation of the financial statements.

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority is a member of the Michigan Transit Pool, a public entity risk pool, which provides insurance coverage for State of Michigan transit authorities. As a public entity risk pool, the pool is comprised of a cooperative group of governmental entities that have joined together to finance certain risks. As a participant in this pool, the Authority is insured under a retrospectively rated policy whereby the initial premium is adjusted based on actual experience during the period of coverage. Insurance coverage provided by participation in this pool includes general and automobile liability protection and direct property damage coverage. In addition, liability, property and crime coverage is provided for as a participant in another public entity risk pool, the Michigan Municipal Risk Management Authority. No additional accrual has been made on the books of the Authority as of September 30, 2004 for any potential amounts due as a result of participating in these public entity risk pools.

The Authority purchases commercial insurance for workman's compensation coverage and medical benefits. Settled claims for insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through insurance during the past year.

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 7 – SUBSEQUENT EVENTS

On August 16, 2002, the Authority was awarded a grant from the Federal Transit Administration and the Michigan Department of Transportation for communication equipment. The equipment is valued at \$18,000. As of September 30, 2004, \$5,960 of this grant has been received. The capitalized cost of the communication equipment and the related income will be recorded when the equipment is received by the Authority.

On August 16, 2004, the Authority was awarded a grant from the Federal Transit Administration and Michigan Department of Transportation for a computer. The computer is valued at \$4,000. As of September 30, 2004, the computer has not been received by the Authority. The capitalized costs of the computer and related income will be recorded when the equipment is received by the Authority.

On August 6, 2002, the Authority was awarded a grant from the Michigan Department of Transportation for two 11 seat passenger buses with lifts. The vehicles are valued at \$101,477. As of September 30, 2004, one vehicle has not been received by the Authority. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received by the Authority.

On November 13, 2003, the Authority was awarded a grant from the Michigan Department of Transportation for a small bus. The vehicle is valued at \$48,207. As of September 30, 2004, the vehicle has not been received by the Authority. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received by the Authority.

On September 14, 2004, the Authority was awarded a grant from the Michigan Department of Transportation for a 10 seat passenger bus with a lift. The vehicle is valued at \$77,305. As of September 30, 2004, the vehicle has not been received by the Authority. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received by the Authority.

NOTE 8 – RESTATEMENT OF RETAINED EARNINGS

As of and for the year ended September 30, 2004 the Authority implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 33 Accounting and Financial Reporting for Nonexchange Transactions
- No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments
- No. 36 Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment of GASB No. 33
- No. 37 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus
- No. 38 Certain Financial Statement Note Disclosures
- No. 40 Deposit and Investment Risk Disclosures

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on size of the government) through fiscal years ending in 2005. The Authority is required to implement the new requirements no later than the fiscal year ending September 30, 2004.

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 8 – RESTATEMENT OF RETAINED EARNINGS (CONTINUED)

As a result of implementing these pronouncements for the fiscal year ended September 30, 2004, the following restatement was made to beginning net asset accounts:

Retained earnings as of September 30, 2003	\$ 485,966
Add: Federal contributed capital	114,029
Add: State contributed capital	<u>143,560</u>
Net assets, restated, as of September 30, 2003	<u>\$ 743,555</u>



SUPPLEMENTARY INFORMATION



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November 19, 2004

Board of Directors  
Interurban Transit Authority  
Douglas, Michigan

### INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our report on our audit of the financial statements of Interurban Transit Authority, County of Allegan, Michigan for the year ended September 30, 2004 precedes the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Ferris, Busscher & Zwiars, P.C.*

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INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF NONOPERATING REVENUES  
YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 1

NONOPERATING REVENUES - LOCAL

Local operating grants		
Tax levy		\$ 149,259
Interest income		4,077
Gain on sale of fixed assets		<u>5,950</u>

TOTAL NONOPERATING REVENUES - LOCAL		<u>\$ 159,286</u>
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NONOPERATING REVENUES - STATE AND FEDERAL

State of Michigan operating grants		
Formula operating assistance (Act 51)		
Fiscal year 2003 and prior years	\$ 596	
Fiscal year 2004	<u>219,138</u>	\$ 219,734

State and Federal capital grants		59,090
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Federal operating grants		
U.S. DOT operating grant - Section 5311		
Contract 2002-0048	\$ 50,408	
Plus underpayment due to maximum reimbursement calculation (Schedule 5)	<u>5,704</u>	<u>56,112</u>

TOTAL NONOPERATING REVENUES - STATE AND FEDERAL		<u>\$ 334,936</u>
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TOTAL NONOPERATING REVENUES		<u>\$ 494,222</u>
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INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF OPERATING EXPENSES  
YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 2

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
LABOR				
Operators' salaries and wages	\$ 135,979	\$ -	\$ -	\$ 135,979
Other salaries and wages	2,060	33,287	44,834	80,181
Dispatchers' salaries and wages	59,310	-	-	59,310
FRINGE BENEFITS	80,951	21,009	19,241	121,201
SERVICES				
Advertising fees	-	-	8,686	8,686
Other services	5,618	4,714	10,533	20,865
MATERIALS AND SUPPLIES CONSUMED				
Fuel and lubricants	21,066	930	-	21,996
Tires and tubes	2,264	-	-	2,264
Other materials and supplies	3,661	6,811	2,718	13,190
UTILITIES	1,533	1,338	9,039	11,910
CASUALTY AND LIABILITY COSTS				
Premium for public liability	13,302	-	-	13,302
Other insurance	-	-	17,192	17,192
MISCELLANEOUS EXPENSES				
Travel and meetings	-	345	2,026	2,371
Other miscellaneous expenses	667	-	1,334	2,001
DEPRECIATION	<u>42,061</u>	<u>-</u>	<u>25,084</u>	<u>67,145</u>
TOTAL EXPENSES	<u>\$ 368,472</u>	<u>\$ 68,434</u>	<u>\$ 140,687</u>	<u>\$ 577,593</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 3

	<u>Operations</u>	<u>Total</u>
Labor	\$ 275,470	\$ 275,470
Fringe benefits	121,201	121,201
Services	29,551	29,551
Materials and supplies consumed	37,450	37,450
Utilities	11,910	11,910
Casualty and liability costs	30,494	30,494
Miscellaneous expenses	4,372	4,372
Depreciation	<u>67,145</u>	<u>67,145</u>
 TOTAL	 \$ 577,593	 \$ 577,593
Less ineligible expenses	<u>65,150</u>	<u>65,150</u>
 TOTAL ELIGIBLE EXPENSES	 <u>\$ 512,443</u>	 <u>\$ 512,443</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 4

	Federal Section <u>5311</u>	State Operating <u>Assistance</u>
EXPENSES		
Labor	\$ 275,470	\$ 275,470
Fringe benefits	121,201	121,201
Services	29,551	29,551
Materials and supplies consumed	37,450	37,450
Utilities	11,910	11,910
Casualty and liability costs	30,494	30,494
Miscellaneous expenses	4,372	4,372
Depreciation	<u>67,145</u>	<u>67,145</u>
 TOTAL EXPENSES	 <u>\$ 577,593</u>	 <u>\$ 577,593</u>
LESS INELIGIBLE EXPENSES		
Depreciation	\$ 59,792	\$ 58,351
Miscellaneous	408	408
Services	<u>4,950</u>	<u>-</u>
 TOTAL INELIGIBLE EXPENSES	 <u>\$ 65,150</u>	 <u>\$ 58,759</u>
 NET ELIGIBLE EXPENSES	 <u>\$ 512,443</u>	 <u>\$ 518,834</u>
MAXIMUM SECTION 5311 REIMBURSEMENT (10.95%)	<u>\$ 56,112</u>	
ELIGIBLE FOR STATE OPERATING ASSISTANCE		
STATE OPERATING ASSISTANCE (42.2366%)		<u>\$ 219,138</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS/INELIGIBLE EXPENSES  
YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 5

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible/Questioned Costs</u>	
		Federal Section 5311 per OMB <u>Circular A-87</u>	State Operating Assistance per Revenue and Expense <u>Manual</u>
A. Operating Grants			
	1. Depreciation: Depreciation accrued on contributed capital and depreciation accrued on cost overruns must be deducted as an ineligible expense.	\$59,792	\$58,351
	2. Miscellaneous: A percentage of the annual dues paid to the Michigan Transit Association must be deducted as an ineligible expense.	\$ 43	\$ 43
	3. Miscellaneous: The repayment of funds per state audit.	\$ 365	\$ 365
	4. Services: The cost of the Authority's annual financial statement audit is an ineligible expense for Federal Section 5311.	\$ 4,950	\$ -

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF FINANCIAL ASSISTANCE FEDERAL AND STATE  
YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 6

<u>FEDERAL GRANTOR/PASS THRU GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>STATE GRANTOR NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
State; & federal operating assistance Computations based on operating expenses Passed through MDOT			
Operating assistance – Section 5311	20.509	2002-0048	\$ 56,112
Operating assistance – Section 5311	20.509	2002-0048	
Operating assistance – Section 5311	20.509	2001-0913	
Operating assistance – Section 5311	20.509	00-0039	
<u>MICHIGAN DEPARTMENT OF TRANSPORTATION</u>			
Operating assistance – Act 51	N/A	9/30/2004	219,138
Operating assistance – Act 51	N/A	9/30/2003	
Operating assistance – Act 51	N/A	9/30/2001	
Operating assistance – Act 51	N/A	9/30/2000	
Operating assistance – Act 51	N/A	9/30/1999	
TOTAL OPERATING ASSISTANCE			<u>\$ 275,250</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through MDOT Capital assistance			
<u>MICHIGAN DEPARTMENT OF TRANSPORTATION</u>			
Capital assistance		2002-0048	\$
Capital assistance		* 2002-0048	
Capital assistance		2002-0048	4,000
Capital assistance		* 2002-0048	48,207
Capital assistance		* 2002-0048	<u>77,305</u>
TOTAL CAPITAL ASSISTANCE			<u>\$ 129,512</u>

\* This grant is for the purchase of a vehicle purchased directly by MDOT



<u>FEDERAL RECEIPTS\ REVENUE</u>	<u>STATE RECEIPTS\ REVENUE</u>	<u>DISBURSEMENTS/ EXPENDITURES</u>	<u>AMOUNT REMAINING</u>
		\$ 577,593	
\$ 50,408			\$ 5,704
9,357			
			121
2,224			
	\$ 211,566		7,572
			393
			532
			8,637
			<u>3,008</u>
<u>\$ 61,989</u>	<u>\$ 211,566</u>	<u>\$ 577,593</u>	<u>\$ 25,967</u>
\$	\$ 5,960	\$ 5,960	\$ 12,040
	53,130	53,130	48,347
			4,000
			48,207
			<u>77,305</u>
<u>\$</u>	<u>\$ 59,090</u>	<u>\$ 59,090</u>	<u>\$ 189,899</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF VEHICLE MILES (UNAUDITED)  
YEAR ENDED SEPTEMBER 30, 2004

SCHEDULE 7

	Public Transportation <u>Mileage</u>
<u>DEMAND – RESPONSE</u>	
First quarter	27,079
Second quarter	26,499
Third quarter	32,996
Fourth quarter	<u>36,909</u>
TOTAL OPERATION	<u>123,483</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

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November 16, 2004

Board of Directors  
Interurban Transit Authority  
Douglas, Michigan

Board Members:

Thank you for the opportunity to be of service to you in performing an audit of the financial statements of Interurban Transit Authority for the year ended September 30, 2004.

In planning and performing our audit of the financial statements of Interurban Transit Authority (the Authority), we noted the following matters that we would like to bring to your attention.

#### **Quarterly State Filings**

The Authority is required to file quarterly financial and mileage data reports to the State by the 10<sup>th</sup> day following the quarter. It was noted during our compliance testing of the state operating grant that the October 1-December 31, 2003 quarterly report was submitted 29 days past the due date of February 10, 2004. We recommend that management continue to monitor the reporting process to ensure that filing is done on a timely basis for compliance with state grant regulations.

#### **Parking Shuttle Billings**

During our revenue testing, we noted that the City of Saugatuck owed the Authority for June-September parking shuttle service. At the time of our fieldwork in November, the Authority had not yet billed the City for the parking shuttle service. Untimely billings could result in lost revenues and misuse of the Authority's services. We recommend that management implement a consistent billing procedure in order to collect revenue owed to the Authority for additional services.

#### **Accrual Basis Financial Reporting**

The Authority is required to present its year-end financial results and annual budgets on the accrual basis in accordance with Generally Accepted Accounting Principles. This means that revenues and expenses are recorded when they are earned or incurred rather than when the cash payments are received or disbursed. During the year, the Authority maintains its records on a cash basis by recording transactions when the cash is received and as payments are made. In conjunction with the year-end audit, we assist the Authority in preparing the

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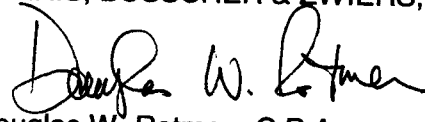
necessary journal entries to make the conversion to accrual basis. These adjustments often include the following items: Grants receivable, Accounts Payable, Accrued Wages and Prepaid expenses. We recommend that the Authority consider making accrual entries on a monthly basis to ensure that the interim financial data is in accordance with Generally Accepted Accounting Principles and materially consistent with the year-end presentation.

This report is intended solely for the information and use of the Board of Directors and management.

If you have any questions regarding the financial statements or the above recommendations and suggestions, we would be pleased to discuss them.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.

A handwritten signature in black ink, appearing to read "Douglas W. Rotman". The signature is fluid and cursive, with the first name "Douglas" being more prominent.

Douglas W. Rotman, C.P.A.

DWR/kc